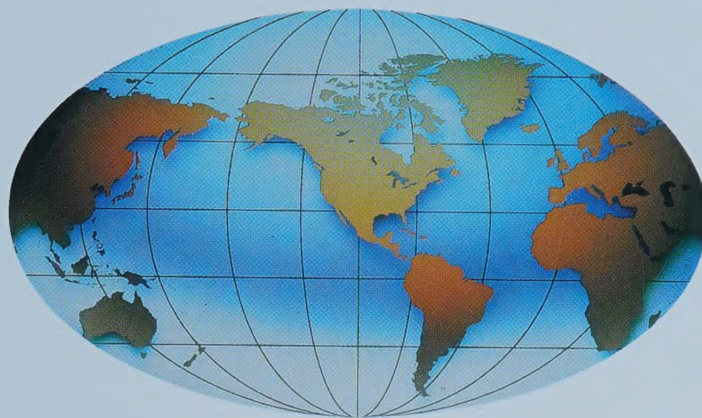
Royal Plastics Group

1996 Annual Report



A World Leader in Building Products and Technologies

Company Profile

- Royal Plastics Group Limited is one of North America's largest extruders of polyvinylchloride (PVC) building products, principally serving the custom profile (predominantly window), siding, door, vertical window blind and pipe markets. Royal also manufactures and markets an innovative, pre-engineered, polymer-based building system, known as The Royal Building System™.

- Royal operates 64 wholly owned or joint venture businesses situated in 84 locations, primarily in Canada, the U.S. and Mexico. The subsidiaries, which operate as individual profit centers, are organized into three groups.

- **The Building Products Group** produces and markets a diversified range of PVC products including custom profiles (mainly window profile), siding, doors, vertical window blinds and pipe, primarily for the North American building products industry.

- **The Building Technologies Group** produces and markets a component-based building system which is used to construct a broad array of residential, commercial, institutional and industrial structures.

- **The Support Group** provides materials, equipment, technology, machinery, research and development, transportation and real estate services to the two operating units, ensuring a high degree of vertical integration within the Royal group of companies.

- Royal is an innovative, technology-based growth company with an increasing global focus. To ensure future growth prospects, Royal is committed to expanding its existing operations in North America and establishing operations globally.

Contents

April 2, 1996– Royal Plastics lists on NYSE, ceremony in NYSE Boardroom.

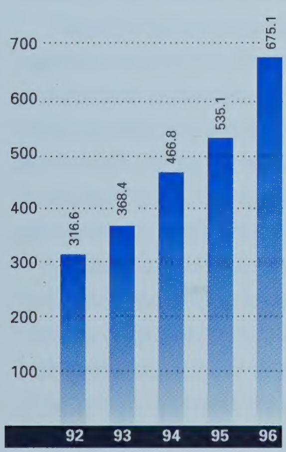
FINANCIAL HIGHLIGHTS

Year ended September 30, 1996

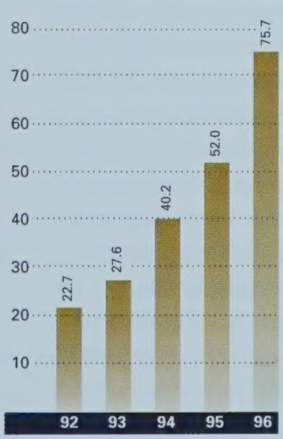
(in thousands of Canadian dollars except per share amounts)

	1996	1995	Percent Increase
Corporate Operating Results			
Net sales	**$ 675,092**	$ 535,053	**26%**
Operating margin	**167,076**	120,005	**39%**
Earnings from operations	**120,599**	82,015	**47%**
Net earnings	**75,705**	52,020	**46%**
Cash Flow (2)	**118,741**	89,486	**33%**
Corporate Financial Position			
Total assets	**835,998**	580,559	
Capital expenditures	**99,980**	94,517	
Working capital	**164,907**	46,975	
Shareholders' equity	**532,370**	336,665	
Per Share			
Net earnings per share	**$ 0.98**	$ 0.74	**32%**
Cash flow per share	**$ 1.53**	$ 1.27	**21%**

Net Sales
(in millions of dollars)

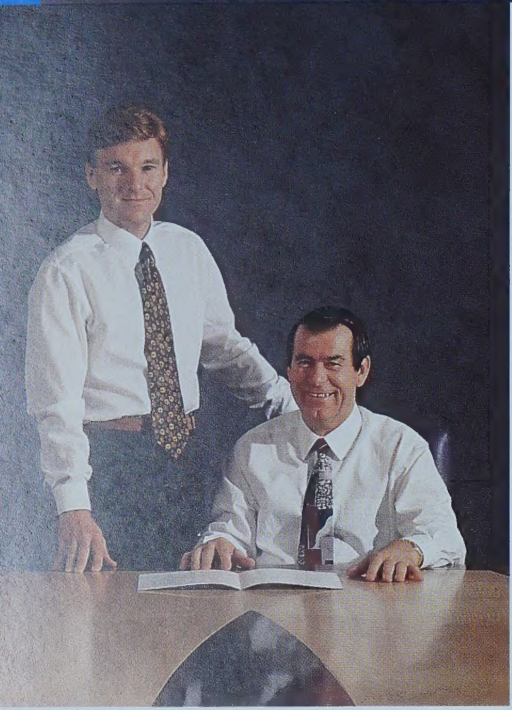


Net Earnings(1)
(in millions of dollars)



Cash Flow(2)
(in millions of dollars)

(1) 1994-92 pre IPO net earnings and operating margin adjusted on a pro-forma basis.
(2) Earnings before minority interest plus items not affecting cash.



From right to left: Vic De Zen, Chairman, President and C.E.O. and Sergio De Zen, Senior Executive Vice President, and C.O.O.

On behalf of the Board of Directors of Royal Plastics Group Limited, I am pleased to report another year of record financial achievement. 1996 will be remembered, not just for the Group's record financial performance, but for the completion of strategic initiatives which position Royal as an innovative global supplier of Building Products and Building Technologies.

On behalf of the Board of Directors of Royal Plastics Group Limited, I am pleased to report another year of record financial achievement. 1996 will be remembered, not just for the Group's record financial performance, but for the completion of strategic initiatives which position Royal as an innovative global supplier of Building Products and Building Technologies.

Sales and Earnings Set New Records

For the twenty-sixth consecutive year, the Group achieved record levels of sales.

During the fiscal year ended September 30, 1996, sales reached $675 million, exceeding 1995 sales by 26%. Sales increased in each of our Building Product segments, demonstrating Royal's ability to gain share of North American markets, initiate penetration of other global markets and capitalize on the substitution of PVC for conventional building materials. Sales were further advanced by the start of commercial production of The Royal Building System™.

Net earnings for the year were $75.7 million versus $52 million in 1995, representing a 46% increase. EBITDA margins increased from 22.4% in 1995 to 24.75% in 1996. Continuing improvements in manufacturing efficiency, further vertical integration and greater volume throughput all contributed to margin enhancement. These record earnings were achieved despite expensing significant costs related to the development and start up of various new ventures.

Earnings per share increased 32% to $0.98 in 1996. The weighted average number of shares outstanding rose to 77,597,058 during 1996, up from 70,459,921 in 1995.

Royal shares again responded favorably to interim financial results and corporate developments, rising 32% during the year. Since Royal's IPO on November 30, 1994, investors have realized a 107% return.

The Building Products Group

During 1996, the Building Products Group continued to focus on gaining market share in North America, while simultaneously creating global distribution networks and developing innovative new products. Our accomplishments create exciting avenues for growth in the years ahead, both in North America and abroad.

In February of 1996, we acquired American Building Products Corporation, a siding distributor in Eastern Europe with 20 distribution locations throughout Poland. This strategic acquisition allows us to distribute siding and other Building Products in Eastern Europe. Recently, we finalized plans to construct a plant in Poland which will commence production of siding in late calendar 1997. In similar strategic moves, independent distributors for siding and window profiles were established in South America and Asia.

The recently acquired vertical window blind manufacturing operations of Novo Industries, Inc. were swiftly and successfully integrated with Royal's during 1996. Novo now purchases chemicals for compounds, metal brackets for window blinds and hanging clips from Royal. The Novo facility in Houston, Texas produces compound for other window blind production facilities in Florida and Mexico. Similar synergies are being experienced in the marketplace, where Novo and Royal's distribution systems compliment each other.

The Group continued to introduce innovative products during the year. The vertical blind segment introduced two patented systems which keep cords out of reach of children. These systems, known as Cord-A-Way™ and Syncromatic®, further position Royal's blind systems as safe, innovative and

aesthetically pleasing. Another innovative product, Woodland 16™, is a PVC siding product which looks like cedar and is provided in longer lengths to reduce laps as well as installation time. Other product developments in various segments continue to position Royal as an innovative industry leader.

The Building Technologies Group

In 1991, we erected our first 500 square foot house made from The Royal Building System™. The System has evolved into a versatile construction technology used to construct homes ranging up to 4000 square feet, town house complexes, factories, medical centers and schools. Construction has recently begun on a six story apartment building in China, a series of high ceiling clearance factories and a 115 unit multistory condominium complex in Toronto, all built using the System.

The original development of a house from the System has spawned ideas for many other applications of the technology. Recent applications of the technology include a residential foundation system and a garage.

The foundation system, which is made from larger multi-cavity panels that include factory installed insulation, is designed for conventionally built brick homes as well as homes made from the System. The foundation system provides homeowners with a basement that is finished, will not leak, is comfortable to live in and allows a 9 foot clear basement ceiling height. By the time this report reaches you, Overhead Door Corporation will be in the process of introducing a detached garage made from the System through its extensive dealer network in North America. These two applications, combined with commercial, industrial, residential and institutional applications, provide a broad array of avenues for growth.

Demand for the System is building globally, where we now have over 50 model centers in 35 countries. Throughout the world, people are increasingly aware of the ease of construction, durability, affordability and ease of maintenance that the system provides. Building authorities in 23 countries worldwide, including Argentina, China, Colombia, Japan and Canada, have granted building code approvals for the System. Insurance companies in Guam have recognized the System's durability by providing homeowners with preferred premium rates. What was just a dream 5 years ago, is now a global reality.

To accommodate increasing global demand for the System, manufacturing joint venture agreements in China, Colombia and Poland were completed during 1996. Construction began on manufacturing plants in Argentina, Colombia and China. Each of these three new plants will commence production during 1997, adding significantly to the production base which today is limited to the plant in Toronto.

Building for the World

Royal is evolving from being a North American manufacturer of Building Products, to being a global manufacturer of innovative Building Products and Technologies. We are pleased with the progress made with the transition during 1996.

The outlook for 1997 is promising. Many new products will begin to contribute, including PVC fencing and decking, the garage door, the garage, the foundation system and various other applications for The Royal Building System™. Each of these exciting new products will offer consumers an aesthetically pleasing, maintenance free product with superior durability.

We expect to realize increasing sales for both Building Products and Building Technologies in the many global markets we have been developing over the last five years. While today approximately 6% of our sales are derived from countries outside of Canada and the USA, we expect that offshore sales will account for a steadily increasing portion in future periods.

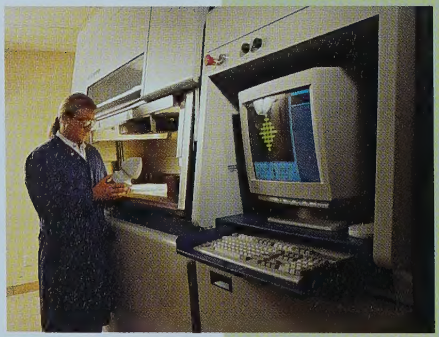
As we look to the future, we are enthusiastic about the opportunities which lie ahead. We envision four key avenues for growth:

- Pursuing increased shares of North American Building Product markets;
- Introducing Building Products in offshore markets;
- Creating new applications for our technologies, such as garage doors; and
- Continuing to develop global markets for The Royal Building System™.

In recognition of our emphasis on technological development and international market penetration, we will be proposing a change in the Group's name to Royal Group Technologies Limited. The new name will more appropriately reflect the Group's strategic emphasis on introducing technologically advanced products throughout the world.

In closing, I would like to thank our employees for their ongoing dedication. I also would like to thank our distribution partners and customers around the world who have shown enormous confidence in Royal by awarding us an increasing level of business activity. Finally, I thank our shareholders, not just for their investment in Royal, but for the many ideas they have provided us during the year. Together, we are building for the world!

Vic De Zen
Chairman, President and C.E.O.



Integrating people with technology.

In 1970 Vic De Zen, along with two partners, founded Royal Plastics. From its beginnings as a single line extruder of custom profiles, Royal has grown into a group of 64 companies operating from 84 different locations, employing over 3500 people.

The same entrepreneurial culture which drove Royal through its initial years is alive today. A series of important management principles have enabled the entrepreneurial culture to survive and flourish.

Ownership
Today, over 50% of Royal's shares are owned by management employees. In an industry where hard work and innovation should be rewarded, equity participation aligns corporate performance and individual performance. Over 9.8 million stock options issued to over 600 employees further ensure that shareholder and employee interests are congruent.

Decentralized Operating Units
Each of Royal's operations, including the support operations, functions as a separate profit center. This decentralized structure makes the various companies responsive to customer needs and changing market conditions.

Partners
When Royal seeks to penetrate a new global marketplace, the appropriate local partner is sought. Local ownership in the venture contributes to its success through understanding of local architectural preferences, business conditions and culture. Distributors and manufacturing partners around the world add to Royal's human breadth and depth.

Multicultural Character
Royal's multicultural hiring practice now allows the Group to transfer trained and experienced personnel to production and distribution facilities throughout the world.

Striving for Excellence
During 1996, Royal adopted ISO 9000 standards in a number of its manufacturing facilities. ISO 9000 is recognized throughout the world as a system of assuring product quality. To date, 5 manufacturing plants have been successfully registered and many more are continuing pursuit of manufacturing excellence through ISO 9000 accreditations.

It is these guiding principles that preserve Royal's entrepreneurial culture, add breadth and depth to the management team and allow global growth.

From its beginnings as a single line extruder of building products, Royal has grown into a group of 64 companies operating from 84 different locations, employing over 3500 people.

During 1996, the Building Products Group was successful in achieving record levels of sales, while at the same time introducing many new innovative products, initiating distribution in a number of global markets and undertaking significant production capacity expansion.

Custom Profiles

The Custom Profile segment, which primarily sells window profiles, recorded sales of $284 million in 1996, up 21% from $234 million in 1995. This increase is reflective of an expanding marketplace for maintenance free vinyl windows and of Royal's ability to utilize its vertical integration to expand market share.

45 dual extrusion lines, which permit the extrusion of two strands of profile simultaneously from one extruder, are now in production throughout Royal's network of custom profile extrusion plants. These proprietary lines, designed and fabricated by Royal Machine Manufacturing, average double the output of a single line, with minor increases in variable costs and only modest increases in capital. The technology has proved so successful, that 70 more dual lines are planned for 1997.

During 1996, the garage door's development was finalized. Distribution for the door was initiated with Overhead Door Corporation in the USA. In November of 1996, commercial production began and as this report goes to print Overhead Door is releasing its Renata Collection of vinyl garage doors by Royal with great marketing fanfare to its eager network of over 400 dealers.

During 1996, Royal began to apply its leading edge extrusion technology to other industrial markets. Components for television sets, office furniture and truck doors all went into production during the year, as part of a strategic move to leverage investment in profile operations through penetration of other markets.

Distribution for custom window profiles was established in Argentina, Colombia and China. These countries, which have climates inhospitable to wood, represent exciting potential for Royal's maintenance free vinyl window profiles. Each of The Royal Building System™ plants in these three countries will also produce vinyl window profiles, commencing in 1997.

Vertical Window Blinds

Vertical window blind sales in 1996 were up by 125% over 1995, reflecting the acquisition of Novo Industries, Inc. and

the synergies between Novo and Royal's distribution systems. Sales were further advanced through the addition of distribution in new global markets, including Holland, Belgium and Ecuador.

Novo's operations were swiftly integrated with Royal's during 1996. Novo's compounding facility in Texas is now supplying some compound to Royal's Florida and Mexican window blind facilities, which have traditionally purchased compound from third parties. Novo now purchases chemicals, metal brackets and plastic injection molded parts from Royal's Support Group. These synergies have helped to provide customers with optimal service and quality.

During 1996, Royal introduced two patented systems to keep window blind cords out of the reach of small children. The new systems, called Cord-A-Way™ and Syncromatic®, have been received with enthusiasm by consumers and will further position Royal blind systems as safe, innovative and aesthetically pleasing.

Siding

Unit sales of siding increased considerably during 1996. Dollar sales were up by over 4%. Sales in North America rose as a result of a buoyant marketplace and market share increases by Royal.

Early in fiscal 1996, Royalguard siding operations were moved from Toronto to Tennessee. By the end of the year, the Tennessee plant was operating efficiently at full capacity and additional capacity was being installed.

Royal continued to lead the North American industry in 1996 with introductions of innovative products, such as Woodland 16™. Shown in the left side of the top photo, Woodland 16™ is designed to look like cedar and is provided in longer lengths to reduce laps as well as installation time.

Penetration of developing markets was successfully initiated during the year. Distribution of siding in Eastern Europe was facilitated through the acquisition of American Building Products Corporation (ABP) in February. ABP, renamed Royal Europa s.p. zoo., distributes siding through over 20 distribution outlets located in Poland. Royal Europa will commence manufacture of siding in Poland in late calendar 1997. In both Asia and South America, independent distributors were established to penetrate these growing markets.

Pipe and Other

Pipe operations benefited from renewed levels of new house construction in various regions of Canada. The pipe segment undertook a series of strategic initiatives aimed at improving its competitive position.

The pipe segment continues to serve as a window on the construction marketplace, giving Royal an early view of construction projects which use other building products. It also serves to pull through chemical additives, machinery, transportation services and tooling from other Royal profit centers.

Royal's steel entry door and vinyl patio door manufacturing facilities were expanded during the year. Royal's door product lines continue to compliment the custom profile operations and are a key strategic component for The Royal Building System™.


FEATHERLITE

From top to bottom, training school residences, Russia; sub division, Northern Canada; 100,000 sq. ft. manufacturing plant, Argentina; and ocean front villa, St. Maarten.

◀ *The Royal Building System™ consists of a series of interlocking panels and connectors that slide together to form walls which are then filled with concrete. The System ultimately provides a concrete structure with a durable maintenance-free plastic skin.*

The Royal Building System™ is a revolutionary construction technology that involves the use of modular polymer panels which incorporate concrete in the structural components of the System. This patented System, which was introduced in 1991, has been used to construct homes, schools, churches, storage sheds, factories, medical centers and townhouses in over 40 countries around the world.

The System provides a number of advantages:

- ***Quick Construction*** – 3 people can build a basic 532 sq ft. home in 3 days
- ***Easy Construction*** – Requires semi-skilled labor and common hand tools
- ***Durable*** – Survived Hurricanes in the Caribbean, Typhoons in the Philippines and Earthquakes in Japan
- ***Maintenance Free*** – No rot, no mold, no mildew, no insects, no painting
- ***Affordable*** – Provides significant savings in various markets, depending on design

Significant progress was made globally during 1996. Additional model centers were opened in places including Poland, Hawaii, and various other South Pacific locations, bringing the total number of model centers to 50 located in over 35 countries. Additional distributors for the System were added in various Caribbean and South Pacific locations, bringing the total number of distributors to 17. Finally, manufacturing joint venture partners were added in Poland, Colombia and China, bringing the total to 4, including the Argentinean venture completed last year.

Construction of manufacturing plants in Argentina, Colombia and China commenced during 1996. All three plants are constructed using the System. Both the Argentinean and Colombian plants will commence production in spring of 1997. The Chinese and the Polish facilities are expected to commence production during the summer and fall of 1997, respectively.

Custom home, Mexico.

At the time of this report, orders for the System from a variety of geographic locations have been received. These orders are for an array of different structures, including houses ranging in size from 400 to 3000 sq. ft., factories, schools, medical clinics and car washes. Not only is the System revolutionizing home construction, it is penetrating commercial, institutional, and industrial applications.

A six story apartment is under construction in China and a 115 unit condominium is nearing construction just north of Toronto. These two multi-unit projects create substantial new applications for the System.

At the close of the year, Royal purchased Rubbermaid Inc.'s 50% interest in Royal Rubbermaid Structures Ltd., a venture producing and marketing an innovative, modular, PVC garden storage shed. The terms of the acquisition involve Royal employing two former personnel of Royal Rubbermaid, who are aggressively developing the market for the shed under the name Royal Outdoor Products, Inc. As part of several new strategic initiatives, the company has been marketing the shed internationally and has recently established distribution and sales activity in Israel. In North America, the shed can be found in various Home Depot, Walmart, Price Costco and Menards stores.

The Royal Building System™ is represented in over 60 countries around the globe.

Martin Luther King School, St. Maarten

Medical Centre, Mexico

100,000 sq. ft. manufacturing plant, Argentina

Town house complex, Colombia

Training School Residences, Russia

Resort, Taiwan

Six story apartment, China

Tourism facility, Philippines

Royal Residential Basement Foundation System

The Royal Building System™ has facilitated many applications for the technology. One of the more exciting applications is a foundation system designed for conventionally built wood and brick homes, as well as homes made from the System. By using larger factory insulated panels, Royal has developed a foundation system which provides homeowners a finished basement, which will not leak, is comfortable to live in and allows 9 foot clear ceilings. When insulating, weather proofing and finishing costs for a conventional poured basement are tallied, the Royal system provides a substantial savings.

Garage

Across North America there are many detached garages which were made of wood in previous decades that are rotting and structurally unsound. Royal has developed a garage made from the System, which can replace these older structures with a durable, easy to construct and maintenance free structure. The garage will be marketed through the extensive Overhead Door dealer network starting in January of 1997. While Overhead's dealers will initially perform installation, plans are being formulated to introduce the garage as a do-it-yourself product.

Fencing and Decking

During 1996, Royal introduced a line of PVC fencing and decking in the Southwestern USA. The products are maintenance free, durable, easy to assemble and offer a breadth of appealing designs. The launch in the Southwestern USA was so successful that the product will be rolled out across North America in 1997. It will be distributed through Royal's network of home improvement contractors, as well as mass merchandisers catering to the do-it-yourself market.

From top to bottom: fence, deck and garage.

Royal's basement foundation system.

◀ *Royal's garage and door which will be marketed through the extensive Overhead Door dealer network.*

At Royal, conservation of natural resources and the environment are key to providing today and tomorrow's customers with products which improve their lifestyles.

Since Royal's inception in 1970, the strategic focus of the Group has been to build products which improve the quality of life for families. During the 1970s, Royal introduced affordable PVC window systems which provided more longevity than conventional wood systems and were maintenance free. In later years Royal introduced siding, vertical blind, pipe and Building Technologies products, all of which provide homeowners with long lasting and maintenance free features.

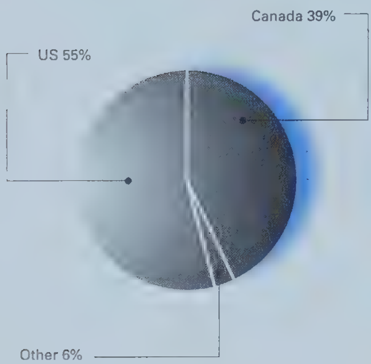
Today, The Royal Building System™ has been used to erect environmentally friendly homes in over 40 countries around the world. While conventional homes made from wood require many oxygen-providing trees to be cut down, the Royal System leaves those important natural resources in the forest; where they belong. The Royal System is made from PVC, which is derived from the world's abundant resources of natural gas and salt. The System can be recycled and is made itself from a significant portion of recycled plastic. It is shipped to a construction site in a kit, leaving little waste at the site for landfill.

Royal is an industry leader in plastic recycling. Royal's PVC recycling facility is capable of processing over 100 million pounds per year, making it one of the largest of its kind in North America. Custom window profile customers, siding customers and pipe customers alike send their scrap back to Royal for recycling and inclusion in products designed to take this type of material.

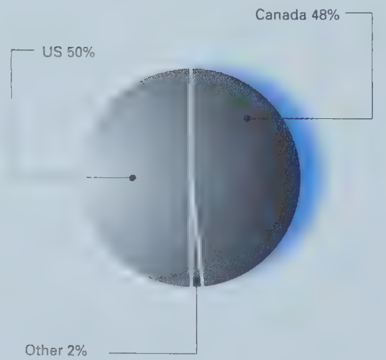
Recycling at Royal goes beyond just plastic. Water used in manufacturing processes is cooled and reused. Royal utilizes a water chilling system of its own design and manufacture to allow recirculation of water. This system has proved so efficient that Ontario Hydro provided Royal with an Energy Efficiency Award, recognizing Royal's contributions to conservation of energy.

At Royal, conservation of natural resources and the environment are key to providing today and tomorrow's customers with products which improve their lifestyles.

Sales by Geographic Region– 1996



Sales by Geographic Region– 1995



The following discussion has been prepared by management and is a review of the company's operating results and financial position based upon accounting principles generally accepted in Canada. All amounts are in Canadian dollars unless specified otherwise.

This discussion should be read in conjunction with the Consolidated Financial Statements and accompanying notes thereto appearing elsewhere in this Annual Report.

	1996	1995	1994[1]
Net Sales	**$ 675,092**	$ 535,053	$ 466,810
Cost of sales and operating expenses	**(508,016)**	(415,048)	(358,343)
Operating margin	**167,076**	120,005	108,467
Operating margin Percentage	**24.7%**	22.4%	23.2%
Amortization	**(38,286)**	(28,095)	(23,902)
Interest and financing charges	**(8,191)**	(9,895)	(17,597)
Earnings before income taxes	**120,599**	82,015	66,968
Income taxes	**(43,500)**	(29,131)	(23,937)
Earnings before minority interest	**77,099**	52,884	43,031
Minority interest	**(1,394)**	(864)	(2,873)
Net Earnings	**75,705**	52,020	40,158
Net Earnings per share	**$ 0.98**	$ 0.74	$ 0.74
Weighted average number of outstanding shares	**77,597,058**	70,459,921	54,123,718

(1) 1994 pre IPO net earnings and operating margin adjusted on a pro-forma basis.

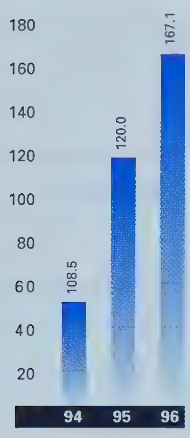
Approximately three-fifths of Royal Plastic's net sales occur in its last two quarters. Accordingly, sales, and EBITDA as a percent of sales are significantly different in the earlier quarters, or on a by-quarter basis, as compared to an annualized amount or rate. This seasonality is even more pronounced in net earnings where approximately three quarters of the annual profit is earned in the last two quarters. This seasonality is a function of the building products industry in North America.

Year ended September 30, 1996 as compared to the year ended September 30, 1995

Net sales

Royal Plastics Group has celebrated its 26th anniversary with a record net sales performance. Net sales in 1996 increased 26% over 1995 or $140 million to $675.1 million. The blind division accounted for $76 million of the increase primarily due to the November 30, 1996 acquisition of Novo Industries, Inc. The net year over year sales increase was 12%, exceeding the renovation and remodeling market growth overall, with the strongest sales performance from custom profiles up 21% from the prior year. The overall sales increase was primarily due to unit volume increases in all operating divisions and was partially offset by lower per unit selling prices as the Company focused on remaining competitive as well as increasing market share.

Operating Margin
(in millions of dollars)



Unit volumes in the core building products increased 31.5% from the prior year, resulting in higher market share percentages for the custom profile, siding and blind divisions.

Management's efforts at diversifying geographically have been successful, as foreign based sales and exports increased to 61% of total net sales from 52% in 1995. This increase is consistent with the Company's plan to grow sales abroad, thereby reducing reliance on the North American building products industry. Growth across major geographic markets was strong with a 6% growth in the Canadian market, a 154% growth in the U.S. based segment and a 188% increase in non-North American segments. U.S. based sales increased significantly due to the acquisition of Novo Industries, Inc. a Houston based company, and the relocation of the Royalguard siding plant to Tennessee. Growth in other segment sales occurred due to the following factors: commencement of commercial production of the Royal Building System™, the purchase of American Building Products in Poland, the purchase of Novo Europe in the Netherlands, and increased sales activity at Advance Profiles in Mexico.

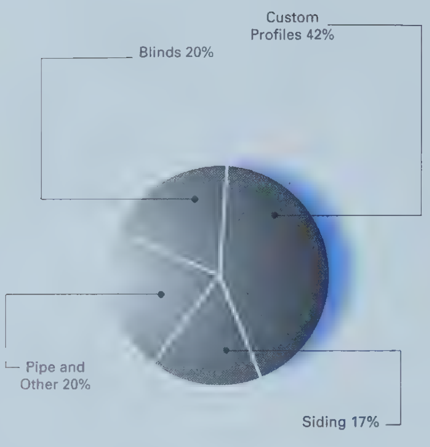
Overall a strong increase in sales is expected in 1997, emanating from continued growth in demand for the core Building Products Group, an increasing percentage of the Company's sales contributed by the Building Technologies Group, introduction of new products, such as decking and fencing. Management anticipates that the Company's current seasonality will become less pronounced in the future, as the Company continues to grow internationally, through expansion of foreign manufacturing facilities and as current plants develop a growing export business.

Operating margin (EBITDA)

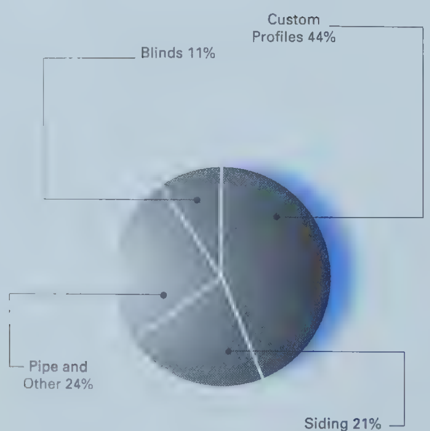
EBITDA increased in 1996 to 24.7% of sales compared to 22.4% for the prior year. The increase was primarily realized as raw material costs as a percentage of sales decreased to 42.6% from 45.3% in the prior year. Given the high level of vertical integration that Royal has developed, as well as the sharing of fixed overhead over an increasingly diversified product base, the Company believes it has a competitive advantage over many of its competitors. Royal has improved margins with improved production efficiencies, including increased throughput in production, increased material efficiencies and improved fixed cost adsorption due to higher unit volumes. Labor costs as a percentage of sales remained stable at 12.2%. Higher labor efficiencies, achieved during the year in core divisions were offset by start-up conditions associated with commercial rollout of the Royal Building System™. As anticipated, this rollout resulted in other manufacturing costs as a percentage of sales of 9.6% versus 8.6% in the prior year.

For fiscal 1997 management believes EBITDA as a percent sales should

Sales by Product– 1996



Sales by Product– 1995



improve as higher unit volumes in the Building Technologies Group produce lower labor and manufacturing costs as a percentage of sales.

Amortization

Amortization expense as a percentage of sales was 5.7% which is slightly higher than the 5.3% experienced last year. In absolute terms, the expense increased by $10.2 million from $28.1 million for the same period last year, due to added capacities most notably in custom profile and siding divisions and amortization of purchased goodwill which accounted for 30.5% of the dollar increase.

Interest and financing charges

Interest and financing charges continue to decline as a percentage of sales, to 0.7% from 1.8% last year. Interest expense declined by $1.7 million from $9.9 million due to lower average loan rates and balances during the year. During the year funded debt declined by $41.4 million from the prior year. In August 1996, the Company issued U.S.$100 million of 10 year senior, unsecured notes bearing interest at rates from 7.17% to 7.31%. The proceeds were used to fund capital acquisitions and repay borrowings under the Company's $365 million revolving credit facilities. In November 1996, the Group's syndicate of banks agreed to increase the existing credit facility to $400 million.

Income tax expense

Income tax expense as a percentage of accounting income before tax remained unchanged at the expected rate of approximately 36% as compared to the same period last year.

Net earnings and earnings per share

Net earnings increased by $23.7 million or 45.5% to a record $75.7 million or 11.2% of sales from $52.0 million or 9.7% of net sales for the previous year.

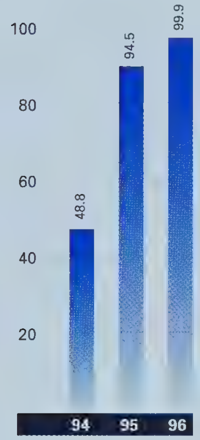
Earnings per share for the year ended September 30, 1996 is $0.98 which represents a 32.1% increase over the earnings per share of $0.74 for the previous year, despite an increase in the weighted average number of shares of 7,137,137 to 77,597,058 from 70,459,921 in 1995.

Year ended September 30, 1995 as compared to the year ended September 30, 1994

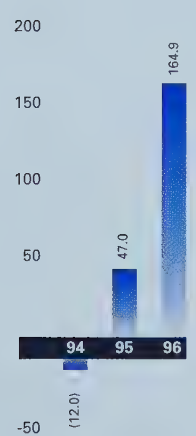
Net sales in 1995 increased 15% over 1994 by $68.3 million to $535.1 million. In 1995 Royal's sales continued to reach record levels, despite slower industry sales growth, demonstrating the Company's ability to increase market share. The strongest sales performance came from siding and custom profiles, up 20% and 13% respectively, due primarily to higher unit volumes.

As anticipated, EBITDA decreased slightly in 1995 to 22.4% of sales compared to 23.2% for the prior year. Prices for PVC resin, which represents a major portion of cost of sales, increased substantially over the prior year due to market demand versus supplier production capacities. However, the increase was offset by improved production effi-

Capital Expenditures
(in millions of dollars)



Working Capital
(in millions of dollars)



ciencies (including increased through put in production, increased material efficiencies (including a full year of commercial production in the new chemical additives plant), improved fixed cost absorption due to higher unit volumes.

Amortization expense increased slightly as a percentage of sales to 5.3% in 1995 from 5.1% in 1994. In absolute terms, the expense increased by $4.2 million from $23.9 million from the previous year due to added capacities, primarily in the custom profile and materials operations and amortization of goodwill from the Plastibec minority interest purchased on November 30, 1994, (which accounted for 17.8% of the 1995 dollar increase).

Interest and financing costs declined as a percentage of sales to 1.8% in 1995 from 3.8% in 1994. Interest expense declined by $7.7 million from $17.6 million last year due to IPO cash proceeds and the cash flow generated throughout the year.

Income tax expense on a basis remained consistent at the expected rate of approximately 36% as compared to the prior year.

Net earnings increased by $11.9 million or 30% to a record $52.0 million or 9.7% of net sales from $40.1 million or 8.6% of the net sales for the previous year.

Liquidity and Capital Resources

Cash flow

In fiscal 1996, the Company generated cash flow of $118.7 million or $1.53 per share, an improvement of $29.2 million or 32.7% over the $89.5 million or $1.27 per share generated in the prior year. During the three years ended September 30, 1996, the Group's cash flow aggregated $272 million, representing an average annual cash flow of $90.7 million. For fiscal 1997, management believes that the Group will continue to generate improved cash flow, and cash flow will continue to be used as a source of funds for investing activities.

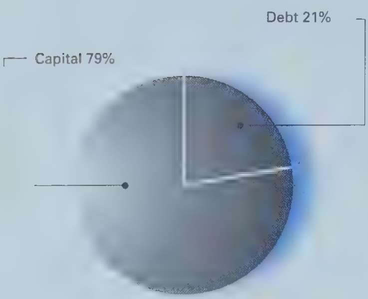
Working capital

An analysis of Royal's working capital position at September 30, 1996 and 1995 is set out below:

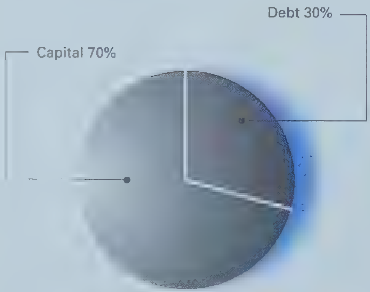
	1996	1995
Current assets excluding cash	**279.6**	205.1
Cash (bank indebtedness)	**9.2**	-88.6
Current liabilities	**-118.3**	-68.2
Current portion of long term debt	**-5.6**	-1.4
Working capital	**164.9**	46.9
Current ratio	**2.33:1**	1.30:1

Working capital increased $118 million to $164.9 million at September 30, 1996 from $46.9 million at September 30, 1995. This improvement was primarily due to the repayment of bank indebtedness with net long term debt proceeds, cash generated from operations and proceeds from the March 1996 share issue. Management continues to direct increased efforts at reducing levels of receivables and inventories. An 11% increase in days receivables was experienced in 1996 (primarily due to the significant increase in 4th quarter sales) and was partially offset by a 7% decline in days inventories.

Funded Debt to Capital– 1996



Funded Debt to Capital– 1995



Capital Spending

Capital spending including acquisitions, for the years ended September 30, 1996 and 1995 is summarized below:

Capital expenditures	99.9	94.5
Acquisitions	84.1	45.1
Total	184.0	139.6

Capital expenditures during 1996 consisted of added capacities (approximately 36% of total capital expenditures during the year) in our custom profile division, and expanded capacity at our relocated siding plant in Tennessee. In Toronto construction was completed on the new 300,000 square foot Building Technologies Group manufacturing facility and in Argentina land was purchased and construction commenced on a state of the art manufacturing facility.

On November 30, 1995 the Company acquired all the issued and outstanding shares of Novo Industries, Inc. and Novo Europe B.V. (collectively "Novo"). Novo is a vertical blind manufacturer based in Houston, Texas with distribution facilities in California, Florida, Illinois, New Jersey and the Netherlands. The net purchase price for Novo was U.S. $60.1 million, 80% of which was paid for by way of cash and 20% of which was paid through the issue of subordinate voting shares. In February 1996, the Company purchased a controlling interest in American Building Products Inc., a distributor of siding products in Eastern Europe having 20 distribution locations throughout Poland.

In fiscal 1997, excluding acquisitions, the Company anticipates an investment in capital assets in the range from $80 to $100 million primarily for increased capacities in The Building Products Group, land, building and equipment for our siding company in Poland, The Royal Building System™ manufacturing facilities in Argentina, Colombia and China and completion of current additions in progress that are expected to be placed into productive use during the first six months of fiscal 1997.

Royal is actively exploring several additional business opportunities in order to strengthen and enhance future growth prospects and to expand existing operating segments. It is anticipated that such investments would be financed from working capital, cash flow generated from operations and, existing bank credit facilities.

Share Issuance

On March 25 1996, Royal issued 5,000,000 subordinate voting shares with gross proceeds of approximately $109 million. The proceeds were used to repay borrowing under existing credit facilities and fund capital spending. Concurrent with the share issue, Royal commenced trading of shares on the New York Stock Exchange on April 2, 1996.

Long term debt and financial instruments

In August, the Company issued U.S. $100 million of 10 year senior, unsecured notes, the proceeds were used to fund capital acquisitions and repay borrowings under the Company's $365 million revolving credit facilities with a syndicate of banks. As at September 30 1996, 100% of the syndicated revolving credit facility was available to be drawn. The Company's total funded debt to total capitalization reduced to 0.21:1 at September 30, 1996 from 0.30:1 at September 30, 1995, due to a combination of reduced utilization of funded debt and the $195.7 million increase in shareholders' equity. In December 1996, the company's syndicate of banks agreed to increase the revolving credit facility to $400 million with reduced interest rates.

Management believes that the Group's anticipated cash flow and available credit under the Group's working capital and term financing agreements will be sufficient to meet its working capital, capital expenditure program including potential business acquisitions currently being explored, and debt service requirements, including the seasonal natures thereof.

Risks and Uncertainties

Royal's future performance is dependent upon a number of factors aside from general economic conditions. A substantial portion of the Group's business is related, directly or indirectly, to the construction and building products industry, both residential and industrial/commercial. Therefore the demand for the products manufactured and distributed by the Group can be affected by changes in the general state of the economy, including home renovation and remodeling, new housing starts and the level of construction activity in general, and mortgage rates. Management seeks to manage this risk by geographical and product line diversification. During 1996 the percent of sales to non-domestic markets, increased to 61% from 52% in the prior year and for 1997 the percentage is expected to increase to within the range from 65 to 70%. Product line diversification continued during the year as new product introductions reduced the company's largest division in terms of sales, the custom profile division to 42% of total consolidated sales from 44% last year.

The Group is subject to a wide range of general and industry specific environmental laws and regulations, particularly relating to waste water discharge. Although the Company maintains all facilities in compliance with regulatory standards, (for example, the Company designs, manufactures and utilizes a water chilling system that cools and recycles water) there can be no assurance that changes in environmental laws and regulations, or their application, will not require further expenditures by the Group.

As the Company continues to expand the scope of its activities in foreign markets, it becomes exposed to a greater risk of foreign exchange fluctuations. The Group attempts to minimize risks associated with currency fluctuations through matching the currency of debt financing and the currency of certain raw material purchases to the currency of sales or asset acquisitions. While the Group has not entered into market instruments with respect to foreign exchange hedging in the past, it may, if deemed necessary, do so in a prudent fashion, in the future. Furthermore, the Company does not purchase derivative instruments beyond those needed to hedge foreign currency requirements.

Outlook for 1997

1996 was a year of transition for Royal, as the company focused on expanding internationally. The trends experienced in 1996 (geographic and product diversification) will continue through 1997.

Looking toward 1997, the Company anticipates strong sales and net earnings growth through increased volumes in both the Buildings Products Group and the Building Technologies Group, new product introductions, and business development activities.

The Group's overall strategy continues to focus on meeting its current and future customers' demands for quality and excellent service at competitive prices, while building long term value for shareholders.

Consolidated Financial Statements of Royal Plastics Group Limited

Years ended September 30, 1996 and 1995

Management's Report to the Shareholders

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in this report is the responsibility of management. The financial statements have been prepared in accordance with appropriate and generally accepted accounting principles and reflect management's best estimates and judgements. All other financial information in the report is consistent with that contained in the financial statements. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee which is composed of a majority of non-executive directors. The Audit Committee reviewed the consolidated financial statements with management and external auditors and recommended their approval by the Board of Directors.

The consolidated financial statements have been audited by KPMG, Chartered Accountants. Their report stating the scope of their audit and their opinion on the consolidated financial statements is presented below.

V. De Zen

Vic De Zen
Chairman, President
and Chief Executive Officer

Gary Brown

Gary Brown
Executive Vice President
and Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Royal Plastics Group Limited as at September 30, 1996 and 1995 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants
Toronto, Canada
November 28, 1996

Consolidated Balance Sheets

Years ended September 30, 1996 and 1995

(in thousands of Canadian dollars)

	1996	1995
Assets		
Current assets:		
Cash (note 8)	$ 9,222	$ –
Accounts receivable (note 4)	154,427	103,846
Inventories (note 5)	120,464	97,802
Prepaid expenses and deposits	4,734	3,484
	288,847	205,132
Property, plant and equipment (note 6)	392,838	303,173
Goodwill and other assets (note 7)	154,313	72,254
	$ 835,998	$ 580,559
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 8)	$ –	$ 88,611
Accounts payable and accrued liabilities (note 9)	118,301	68,186
Term debt due within one year (note 10)	5,639	1,360
	123,940	158,157
Term debt (note 10)	142,675	53,942
Deferred income taxes	30,587	26,846
Minority interest	6,426	4,949
Shareholders' equity:		
Capital stock (note 11)	372,749	250,566
Retained earnings	163,842	88,137
Currency translation adjustments	(4,221)	(2,038)
	532,370	336,665
	$ 835,998	$ 580,559

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

Consolidated Statements of Earnings

Years ended September 30, 1996 and 1995

(in thousands of Canadian dollars)

	1996	1995
Net sales	**$ 675,092**	$ 535,053
Cost of sales and operating expenses	**(508,016)**	(415,048)
Operating margin	**167,076**	120,005
Amortization (note 14)	**(38,286)**	(28,095)
Interest and financing charges (note 15)	**(8,191)**	(9,895)
Earnings before income taxes and minority interest	**120,599**	82,015
Income taxes (note 16)	**(43,500)**	(29,131)
Earnings before minority interest	**77,099**	52,884
Minority interest	**(1,394)**	(864)
Net earnings	**$ 75,705**	$ 52,020
Basic earnings per share (note 12)	**$ 0.98**	$ 0.74

Consolidated Statements of Retained Earnings

Years ended September 30, 1996 and 1995

(in thousands of Canadian dollars)

	1996	1995
Retained earnings or capital employed (note 2 (c)), beginning of year	**$ 88,137**	$ 112,988
Dividends and distributions upon reorganization and initial public offering	**–**	(76,871)
Net earnings	**75,705**	52,020
Retained earnings, end of year	**$ 163,842**	$ 88,137

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended September 30, 1996 and 1995

(in thousands of Canadian dollars)

	1996	1995
Cash provided from (used in):		
Operating activities:		
Earnings before minority interest	$ 77,099	$ 52,884
Add back items not affecting cash (note 18)	41,642	36,602
Changes in non-cash working capital balances (note 19)	(3,433)	(43,530)
Currency translation adjustments	(2,183)	(2,716)
	113,125	43,240
Investing activities:		
Acquisitions of property, plant and equipment	(99,980)	(94,517)
Acquisition of non-cash assets	(84,058)	(45,126)
Increase in other assets	(19,831)	(10,098)
	(203,869)	(149,741)
Financing activities:		
Term debt proceeds	142,712	51,549
Term debt repayments	(75,943)	(177,007)
Repayment of advances from shareholders	–	(1,094)
Decrease in minority interest	(375)	(250)
Dividends and distributions upon reorganization	–	(76,871)
Issuance of shares on reinvestment of dividends and distributions upon reorganization	–	36,719
Issuance of shares on public offerings	108,750	204,188
Share issue costs	(3,270)	(8,281)
Issuance of shares on acquisitions	16,229	17,907
Issuance of shares under stock option plan	474	33
	188,577	46,893
Increase (decrease) in cash	97,833	(59,608)
Bank indebtedness, beginning of year	(88,611)	(29,003)
Cash (bank indebtedness), end of year	$ 9,222	$ (88,611)

See accompanying notes to consolidated financial statements.

Years ended September 30, 1996 and 1995

(in thousands of Canadian dollars)

1. Significant accounting policies:

The Company's accounting policies and standards of financial disclosure as presented in these consolidated financial statements are in accordance with generally accepted accounting principles in Canada. The more significant accounting policies are summarized as follows:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Royal Plastics Group Limited and its subsidiaries. Investments in joint ventures have been proportionately consolidated based on the Company's ownership interest. All significant intercompany profits, transactions, and balances have been eliminated in consolidation.

(b) Inventories:

Inventories are stated at the lower of cost, determined using the first-in, first-out (FIFO) basis, and replacement cost for raw materials and net realizable value for finished goods.

(c) Property, plant and equipment:

Property, plant and equipment is stated at cost less accumulated amortization. Interest expense relating to major capital expenditures is capitalized when significant interest costs will be incurred before the capital facility commences production. Amortization is provided over the estimated useful lives of the assets using the following rates and methods;

Buildings	5% to 10% declining balance
Plant equipment	Straight-line over 10 to 15 years
Dies and molds	Straight-line over 4 to 10 years
Office and computer equipment	20% to 30% declining balance
Aircraft	Straight-line over 10 to 20 years
Transport equipment	30% declining balance

(d) Goodwill and other assets:

Goodwill is amortized on a straight-line basis over forty years. Goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any permanent impairment of goodwill would be written off against earnings.

Other assets, primarily being deferred development costs, are amortized on a straight-line basis over three to five years from the date commercial production of the related product commences.

(e) Currency translation for self-sustaining foreign operations:

Assets and liabilities of the Company's self-sustaining foreign operations are translated at the rates of exchange in effect at the balance sheet date. Sales and expenses are translated at rates approximating the average rates during the year. Exchange gains and losses resulting from such translations are deferred and included in shareholders' equity as currency translation adjustments.

Years ended September 30, 1996 and 1995

(in thousands of Canadian dollars)

2. Business development:

(a) Acquisition of Novo Industries, Inc.:

On November 30, 1995, the Company acquired all of the issued and outstanding shares of Novo Industries, Inc., and Novo Europe B.V. (collectively "Novo"). Novo is a vertical blind manufacturer based in Houston, Texas with distribution facilities in California, Florida, Illinois, New Jersey and the Netherlands.

The net purchase price for Novo was $81,776 (US $60,100), 80% of which was paid for by way of cash and 20% of which was paid through the issuance of 902,753 subordinate voting shares of the Company. The acquisition has been accounted for by the purchase method.

Details of the acquisition are summarized as follows:

Working capital	$ 19,196
Property, plant and equipment	17,591
Other assets	131
	36,918
Term debt	(21,297)
Deferred income taxes	(533)
	15,088
Goodwill	66,688
Total purchase price	$ 81,776
Consideration:	
Share capital (note 11)	$ 16,229
Cash	65,547
	$ 81,776

2. Business development, (continued):

(b)Acquisitions of other businesses:

During 1996, the Company acquired either 100% or controlling interests in certain businesses for aggregate consideration of $2,282 in cash. These acquisitions were accounted for by the purchase method and are summarized as follows:

Working capital	$	1,553
Property, plant and equipment		5,214
Other assets		631
		7,398
Term debt		(4,984)
Deferred income taxes		(61)
Minority interest		(458)
		1,895
Goodwill		387
Total purchase price	$	2,282

(c) Reorganization and initial public offering:

In November 1994, the Company entered into reorganization agreements with all shareholders of Royal Plastics Limited, Steelewood Investments Limited and Steelebridge Investments Limited and with the management shareholders of certain of their collective investee businesses, to exchange their interests for direct interests in the Company, consisting of multiple voting shares, subordinate voting shares and shareholder demand notes.

Since the reorganization involved the exchange of related interests for direct interests in the Company, it has been accounted for in a manner similar to the pooling of interests method. Accordingly, consolidated financial statements prior to the amalgamation reflect the financial position and results of operations of the predecessor businesses as though they had been carried on by the Company in prior periods. The interests of the shareholders of the predecessor businesses in the net assets of the Company prior to the reorganization are presented in the consolidated statement of retained earnings as capital employed.

On November 30, 1994, Royal Plastics Group Limited completed its initial public offering of subordinate voting shares and listed on the Toronto and Montreal Stock Exchanges. 18,150,000 subordinate voting shares were issued at $11.25 for gross proceeds of $204,188. Costs of issue of $8,281, net of current and deferred income tax recoveries of $680 and $3,335 respectively, were charged to capital stock.

In conjunction with the reorganization and initial public offering, the Company paid dividends of $31,698 and settled shareholders demand notes in the aggregate of $45,173, of which $36,719 was used to subscribe for multiple voting shares and subordinate voting shares (note 11).

(in thousands of Canadian dollars)

2. Business development (continued):

(d)Acquisition of minority interest:

The Company increased its interest to 100% in Plastibec Ltd. effective November 30, 1994 by acquiring the remaining 20% of common shares held publicly. The acquisition was accounted for by the purchase method. The fair market value of net assets acquired and consideration given are summarized as follows:

Working capital	$ 6,376
Property, plant and equipment	7,996
Other assets	2,239
	16,611
Term debt	(3,222)
Other term liabilities	(1,767)
	11,622
Goodwill	33,504
Total purchase price	$ 45,126
Consideration:	
Share capital (note 11)	$ 17,907
Cash	27,219
	$ 45,126

(e)Financing arrangements:

In August 1996, the Company issued US $100 million of 10 year senior, unsecured notes bearing interest at rates from 7.17% to 7.31%. The proceeds were used to fund capital acquisitions and repay borrowings under the Company's $365 million revolving credit facilities, which remain 100% available to be drawn against as at September 30, 1996.

3. Interest in joint ventures:

The Company's proportionate interests in these joint ventures includes current assets of $4,028 (1995 - $3,677), property, plant and equipment of $5,159 (1995 - $6,959), current liabilities of $3,193 (1995 - $2,347) and long-term liabilities of $3,307 (1995 - $1,674). Operating results of the Company include sales of $15,800 (1995 - $14,400) and net earnings of $1,631 (1995 - $1,242) from its proportionate interest of joint venture operations. Cash provided from operations of $2,191 (1995 - $1,242) and acquisitions of property, plant and equipment of approximately $2,927 (1995 - $4,500) related to its proportionate share of operations of certain joint ventures during the year.

4. Accounts receivable:

	1996	1995
Trade, net of allowance for doubtful accounts of $4,518 (1995 - $ 3,395)	$ 149,854	$ 100,456
Taxes and other	4,573	3,390
	$ 154,427	$ 103,846

5. Inventories:

	1996	1995
Raw materials	$ 51,765	$ 40,626
Finished goods	68,699	57,176
	$ 120,464	$ 97,802

Years ended September 30, 1996 and 1995

(in thousands of Canadian dollars)

6. Property, plant and equipment:

			1996	1995
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 32,250	$ –	$ 32,250	$ 24,996
Buildings	137,040	32,523	104,517	59,440
Plant equipment	283,899	113,686	170,213	129,379
Dies and moulds	43,244	25,111	18,133	15,122
Office and computer equipment	11,660	6,589	5,071	3,339
Aircraft and transport equipment	43,590	10,571	33,019	32,850
	551,683	188,480	363,203	265,126
Assets under construction	18,674	–	18,674	28,719
Land held for future use	10,691	–	10,691	9,328
	$ 581,318	$ 188,480	$ 392,838	$ 303,173

Assets under construction are expected to be placed into productive use during the first six months of fiscal 1997 and consist of land and buildings under construction of $3,432 (1995 - $18,748) and plant equipment under construction of $15,242 (1995 - $9,971). Capital expenditures during the year include $1,319 (1995 - $1,951) of capitalized interest costs.

7. Goodwill and other assets:

	1996	1995
Goodwill, net of accumulated amortization of $6,853 (1995 - $3,297)	$ 105,611	$ 42,077
Deferred charges:		
Product development and start-up costs, net of accumulated amortization of $1,673 (1995 - $64)	41,327	27,785
Patents	2,158	1,395
Deferred financing costs	1,362	419
	44,847	29,599
Investments	3,855	578
	$ 154,313	$ 72,254

8. Cash (bank indebtedness):

	1996	1995
Cash	$ 17,894	$ –
Outstanding cheques	(8,672)	(8,554)
Operating credit:		
Prime rate advances	–	(3,406)
Bankers' acceptances advances	–	(52,500)
Libor advances (1995 - US $18,000)	–	(24,151)
	$ 9,222	$ (88,611)

The Company has a revolving $365,000 unsecured facility with a syndicate of banks. The facility consists of a $140,000 operating loan for working capital requirements, that bears interest at prime or at 0.625% over bankers' acceptances rates or Libor, and $225,000 (note 10) of term debt for acquisitions and capital expenditures. As at September 30, 1996, $365,000 of the credit facility was available to be drawn.

9. Accounts payable:

	1996	1995
Trade	$ 93,826	$ 57,135
Taxes and other	24,475	11,051
	$ 118,301	$ 68,186

Years ended September 30, 1996 and 1995

(in thousands of Canadian dollars)

10. Term debt:

	1996	1995
Senior notes (U.S. $100,000), unsecured, bearing interest at 7.17% on US $75,000 and 7.31% on US $25,000, principal repayments due annually from August 2002 through 2006	$ 136,180	$ –
Industrial development revenue bonds (U.S. $4,796), bearing interest at 3.63%, repayable in monthly installments of US $ 21 plus interest, due April 2009	6,532	–
Authorized revolving unsecured credit of $225,000, bearing interest at prime, or 0.875% over bankers' acceptances rates or Libor, expiring in April 2000. Principal repayment required only on maturity:		
U.S. Libor loans (1995 - US $30,000)	–	40,251
Canadian bankers' acceptances	–	8,000
	142,712	48,251
Term debt requiring periodic principal repayments:		
US dollar note payable (US $1,374), non-interest bearing	1,871	2,947
Other	3,731	4,104
	5,602	7,051
Total term debt	148,314	55,302
Term debt due within one year	(5,639)	(1,360)
	$ 142,675	$ 53,942

Principal repayments for the next five years are as follows:

1997	$ 5,639
1998	714
1999	340
2000	340
2001 and thereafter	141,281
	$ 148,314

11. Capital stock:

Authorized share capital of the Company consists of the following;

(a) Unlimited number of preference shares:

Preference shares are issuable in series, with the designation of rights, privileges, restrictions and conditions to be determined by the Board of Directors prior to the issue of the first shares of a series. None of these shares are issued or outstanding.

(b) Unlimited number of subordinate voting shares and multiple voting common shares:

(i) Subordinate voting shares:

Each share is entitled to one vote per share at all meetings of shareholders and shall participate equally as to dividends with each multiple voting share.

(ii) Multiple voting shares:

Each share is entitled to 20 votes per share at all meetings of shareholders and shall participate equally as to dividends with each subordinate voting share. Each share may be converted at any time into a fully-paid subordinate voting share on a one-for-one basis.

In the event that either the subordinate voting shares or the multiple voting shares are subdivided or consolidated, the other class shall be similarly changed to preserve the relative position of each class. Under certain conditions, the sale or transfer of multiple voting shares shall cause such shares to be changed to subordinate voting shares.

Years ended September 30, 1996 and 1995

(in thousands of Canadian dollars)

11. Capital stock (Continued):

	Subordinate Voting No. of shares	Subordinate Voting Stated value	Multiple Voting No. of shares	Multiple Voting Stated value	Total No. of shares	Stated value
Issued and outstanding at September 30, 1994	–	$ –	–	$ –	–	$ –
Issued on reorganization (note 2(c))	34,251,435	18,309	17,635,444	18,410	51,886,879	36,719
Issued for cash, net of share issue costs (note 2(c))	18,150,000	195,907	–	–	18,150,000	195,907
Issued on acquisition of minority interest in Plastibec (note 2(d))	4,296,821	17,907	–	–	4,296,821	17,907
Issued for cash under stock option plan	3,000	33	–	–	3,000	33
Issued and outstanding at September 30, 1995	56,701,256	$ 232,156	17,635,444	$ 18,410	74,336,700	$ 250,566
Issued for cash, net of share issue costs	5,000,000	105,480	–	–	5,000,000	105,480
Issued on acquisition of Novo Industries, Inc. (note 2(a))	902,753	16,229	–	–	902,753	16,229
Issued for cash under stock option plan	70,133	474	–	–	70,133	474
Issued and outstanding at September 30, 1996	62,674,142	$ 354,339	17,635,444	$ 18,410	80,309,586	$ 372,749

Substantially all of the subordinate and multiple voting shares issued on re-organization and certain of those issued on acquisition of minority interest in Plastibec are subject to various escrow agreements for release over the next three years.

During 1995 the Company adopted a stock option plan to allow management and key operating personnel to purchase subordinate voting shares, substantially exercisable as to half on or after December 1, 1997, the balance after December 1, 2000. The maximum number of subordinate voting shares reserved to be issued for options cannot exceed 11,000,000 (1995 - 10,000,000).

	1996	1995
Balance at beginning of year	8,555,776	–
Granted during the year, at prices ranging from $17.00 to $22.00 per share (1995 - $11.25 to $16.25 per share)	1,287,744	8,558,776
Exercised during the year	(70,133)	(3,000)
Cancelled during the year	(198,114)	–
Balance at end of year	9,575,273	8,555,776

12. Earnings per share:

Basic and fully diluted net earnings per share have been calculated using the weighted average and maximum dilutive number of shares outstanding during the year of 77,597,058 (1995 - 70,459,921) and 87,172,331 (1995 - 79,015,497), respectively. Earnings per share on a fully diluted basis is $0.96 (1995 - $0.73)

13. Research and development:

The Company carries on various applied research and development activities. Research and development expenditures incurred during the year were approximately $6,200 (1995 - $6,100).

14. Amortization:

	1996	1995
Property, plant and equipment	$ 33,120	$ 27,066
Goodwill	3,556	965
Deferred charges	1,610	64
	$ 38,286	$ 28,095

15. Interest and financing charges:

	1996	1995
Interest expense:		
Operating	$ 3,233	$ 4,331
Term	4,138	4,583
Bank and financing charges	647	400
Amortization of:		
Deferred financing charges	173	581
	$ 8,191	$ 9,895

Years ended September 30, 1996 and 1995

(in thousands of Canadian dollars)

16. Income taxes:

	1996	1995
Net earnings before taxes	$ 120,599	$ 82,015
Expected income taxes based on an effective manufacturing and processing income tax rate of approximately 36%	43,416	29,525
Changes in income taxes attributed to:		
Amortization of goodwill	1,285	347
Reduction due to income earned in foreign jurisdictions	(2,313)	–
Different effective income tax rates on earnings of certain subsidiaries and other	1,112	(741)
	$ 43,500	$ 29,131

The current tax provision for the year was $38,513 (1995 - $18,076) and the deferred tax provision was $4,987 (1995 - $11,055).

17. Segment reporting data:

The Company operates primarily in the North American building products industry and sells to a broad range of customers, none of which accounted for more than 3% of net sales. (1995 - 5%). Net sales to non-Canadian customers, including foreign based sales and exports from Canadian operations, represented 61 % (1995 - $52%) of total net sales. Net sales and identifiable assets by geographic region are presented below:

	1996	1995
Net sales:		
Canadian segment:		
United States	$ 210,036	$ 205,224
Other foreign countries	17,056	3,337
Total exports	227,092	208,561
Canada	264,461	255,306
	491,553	463,867
American segment	162,474	63,876
Other segments	21,065	7,310
	$ 675,092	$ 535,053

	1996	1995
Identifiable assets:		
Canadian segment	$ 656,307	$ 516,035
American segment	156,237	56,214
Other segments	23,454	8,310
	$ 835,998	$ 580,559

(in thousands of Canadian dollars)

18. Items not affecting cash:

	1996	1995
Amortization	$ 38,286	$ 28,095
Amortization of deferred financing charges and foreign exchange loss	173	581
Deferred income taxes	3,147	7,720
Other	36	206
	$ 41,642	$ 36,602

Deferred income taxes are net of deferred income taxes recovered of $1,840 (1995 - $3,335) related to share issue costs (note 11).

19. Changes in non-cash working capital balances:

	1996	1995
Accounts receivable	$ (27,833)	$ (2,037)
Inventories	(5,550)	(26,323)
Prepaid expenses and deposits	(1,029)	(1,006)
Accounts payable and accrued liabilities	30,979	(14,164)
	$ (3,433)	$ (43,530)

The changes in non-cash working capital balances noted above are exclusive of non-cash working capital acquired through acquisitions.

20. Significant differences between Canadian and United States generally accepted accounting principles:

These consolidated financial statements have been prepared in accordance with generally accepted principles (GAAP) in Canada. In certain respects, GAAP in the United States (US) differs from those in Canada. The following is a summary of the effect of significant differences in GAAP on the consolidated financial statements:

20. Significant differences between Canadian and United States generally accepted accounting principles (continued):

(a) Description of GAAP differences:

(i) Product development costs:
Canadian GAAP permits the capitalization of product development costs if certain criteria are met. Under US GAAP, product development costs are expensed as incurred.

(ii) Foreign exchange on term debt:
Canadian GAAP requires that unrealized gains and losses from the translation of term debt denominated in foreign currencies at current exchange rates be deferred and amortized over the term of the debt. Under US GAAP, such gains and losses are charged to earnings as period costs.

(iii) Other deferred charges:
Canadian GAAP permits the deferral of other developmental costs relating to the start-up activities of current operations. Under US GAAP, such costs are expensed as incurred.

(b) Net earnings in accordance with US GAAP:

		1996		1995
Net earnings as reported	$	75,705	$	52,020
Product development costs (i)		(633)		(984)
Foreign exchange on term debt		–		413
Other deferred charges (iii)		71		(817)
Tax effect of adjustments		202		500
Net earnings in accordance with US GAAP	$	75,345	$	51,132
Earnings per share in accordance with US GAAP	$	0.97	$	0.73

Years ended September 30, 1996 and 1995

(in thousands of Canadian dollars)

20. Significant differences between Canadian and United States generally accepted accounting principles (continued):

(c) Shareholders' equity in accordance with US GAAP:

	1996	1995
Shareholders' equity as reported	$ 532,370	$ 336,665
Product development costs (i)	(10,550)	(9,917)
Other deferred charges (iii)	(1,162)	(1,233)
Tax effect of adjustments	4,216	4,014
Shareholders' equity in accordance with US GAAP	$ 524,874	$ 329,529

(d) Effect on consolidated balance sheet (see 20 (e) (ii)):

The application of US GAAP would have the following effects on the consolidated balance sheets:

	1996	1995
Goodwill and other assets:		
As reported	$ 154,313	$ 72,254
Under US GAAP	142,601	61,104
Deferred income taxes:		
As reported	30,587	26,846
Under US GAAP	26,371	22,832

20. Significant differences between Canadian and United States generally accepted accounting principles (continued):

(e) Other disclosures:

(i) Income taxes:

US GAAP requires that deferred income taxes be accounted for under the liability method whereas Canadian GAAP requires the use of the deferral method. The difference between these two methods does not have a material effect on the amount of deferred income taxes in the consolidated financial statements.

The deferred tax balance under US GAAP consists of deferred tax assets and deferred tax liabilities. The following are the major components of the deferred income taxes under US GAAP in the balance sheet as at September 30:

	1996	1995
Deferred tax assets:		
Share issue costs	$ 5,175	$ 3,335
Net operating losses	916	–
	6,091	3,335
Deferred tax liabilities:		
Property, plant and equipment	(29,709)	(22,861)
Deferred charges	(2,753)	(3,306)
	(32,462)	(26,167)
Net deferred tax liabilities	$ (26,371)	$ (22,832)

The tax provision under US GAAP for each of the years ended September 30 consists of the following:

	1996	1995
Current provision:		
Canadian	$ 30,427	$ 16,972
Foreign	8,086	1,104
	38,513	18,076
Deferred tax provision:		
Canadian	5,112	10,137
Foreign	(327)	418
	4,785	10,555
Total tax provision under US GAAP	$ 43,298	$ 28,631

20. Significant differences between Canadian and United States generally accepted accounting principles (continued):

(e) Other disclosures (continued):

(ii) Consolidated statement of changes:
Under US GAAP, bank indebtedness would not be included as a component of cash position. Accordingly,the $80,057 decrease in operating loans (1995 - $39,194 increase) would be presented as a financing activity and increase (decrease) in cash for the year would change by a corresponding amount.

Under Canadian GAAP the issuance of shares in conjunction with acquisitions has been reflected on the statement of changes in financial position as both a financing and investing activity. Under US GAAP, this non-cash transaction would be excluded and cash used for investing activities and provided from financing activities would be reduced by $16,229 (1995 - $17,907).

(iii) Additional information required by SFAS 107 with respect to the fair value of financial instruments:
Cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and term debt due within one year approximate fair value because of the short maturity of these instruments.

The amount of cash flows associated with the company's term debt discounted using its current borrowing rates for similar debt instruments of comparable maturity is such that the fair values of term debt approximates its carrying value.

(iv) Additional information for SFAS 121 with respect to long-lived assets:
Long-lived assets and certain identifiable intangible assets to be held and used by the Company should be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management of the company does not believe that adoption of this standard would have a material effect on its financial position or results of operations under US GAAP.

20. Significant differences between Canadian and United States generally accepted accounting principles (continued):

(e) Other disclosures (continued):

(v) New US Accounting Standards:

During 1995, the Financial Accounting Standards Board also issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", (SFAS 123) which establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. This statement defines a fair value based method of accounting for employee stock options and encourages but does not require all entities to adopt that method of accounting for measuring compensation expense in their US GAAP financial statements. SFAS 123 is applicable to fiscal years beginning after December 15, 1995. The Company does not currently expect to adopt the measurement principle prescribed by SFAS 123 in its financial statements presented under US GAAP.

Supplementary Financial Information

(in thousands of Canadian dollars, except per share amounts)

Supplementary Quarterly Data[1]

	Q1	Q2	Q3	Q4	**Total**
Corporate Operating Results – Fiscal 1996					
Net sales	130,401	133,442	196,215	215,034	**675,092**
Operating margin	27,640	28,232	52,293	58,911	**167,076**
Earnings from operations	17,339	17,572	39,771	45,917	**120,599**
Net earnings	10,940	11,155	25,419	28,191	**75,705**
Per Share – Fiscal1996					
Net earnings per share	$0.15	$0.15	$0.32	$0.36	**$0.98**
Corporate Operating Results – Fiscal 1995					
Net sales	113,621	119,343	149,515	152,574	**535,053**
Operating margin	21,751	22,871	36,910	38,473	**120,005**
Earnings from operations	11,734	13,740	27,757	28,784	**82,015**
Net earnings	6,807	8,366	17,686	19,161	**52,020**
Per Share – Fiscal1995					
Net earnings per share	$0.12	$0.12	$0.24	$0.26	**$0.74**
Corporate Operating Results – Fiscal 1994 [2]					
Net sales	91,589	87,666	142,393	145,162	**466,810**
Operating margin	17,429	16,646	37,570	36,822	**108,467**
Earnings from operations	8,062	6,946	27,061	24,899	**66,968**
Net earnings	4,809	4,201	15,901	15,247	**40,158**
Per Share – Fiscal 1994					
Net earnings per share	$0.09	$0.08	$0.29	$0.28	**$0.74**

Eight-Year Summary of Statements of Earnings[3]

(for the years ended September 30)

	1996	1995	1994	1993	1992	1991	1990	1989
Net Sales	**675,092**	535,053	466,810	368,388	316,564	266,317	261,645	205,105
Cost of sales and operating expenses	**(508,016)**	(415,048)	(353,968)	(279,730)	(240,038)	(212,128)	(203,869)	(157,806)
Operating margin	**167,076**	120,005	112,842	88,658	76,526	54,189	57,776	47,299
Operating margin percentage	**24.7%**	22.4%	24.2%	24.1%	24.2%	20.3%	22.1%	23.1%
Amortization	**(38,286)**	(28,095)	(23,902)	(20,552)	(18,536)	(17,841)	(13,521)	(9,959)
Interest and financing charges	**(8,191)**	(9,895)	(17,597)	(20,387)	(19,771)	(25,002)	(21,335)	(13,690)
Earnings from operations	**120,599**	82,015	71,343	47,719	38,219	11,346	22,900	23,650
Management shareholder bonuses	**0**	0	(8,079)	(5,446)	(1,979)	(1,578)	(2,454)	(16,014)
Unusual items	**0**	0	5,815	0	0	0	0	0
Earnings before income taxes and minority interest	**120,599**	82,015	69,079	42,273	36,240	9,768	20,446	7,636
Income taxes	**(43,500)**	(29,131)	(21,328)	(15,220)	(12,147)	(1,377)	(10,317)	(3,157)
Earnings before minority interest	**77,099**	52,884	47,751	27,053	24,093	8,391	10,129	4,479
Minority interest	**(1,394)**	(864)	(2,168)	(734)	(722)	(195)	(332)	(621)
Net earnings	**75,705**	52,020	45,583	26,319	23,371	8,196	9,797	3,858

(1) Quarterly information is unaudited.
(2) 1994 pre IPO net earnings and operating margin adjusted on a pro-forma basis.
(3) 1994-89 pre IPO net earnings and operating margin are unadjusted.

Outstanding Share Information

(as at September 30, 1996)

Multiple Voting Shares	17,635,444
Subordinate Voting Shares	62,674,142
Total shares outstanding	80,309,586

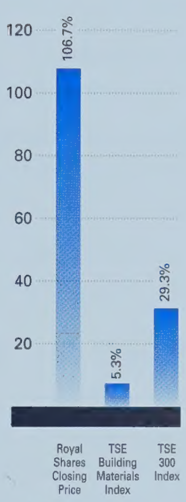
Weighted average number of shares for Fiscal 1996 were:

Q1	74,640,973
Q2	75,248,975
Q3	80,248,975
Q4	80,271,786

Total options outstanding as at September 30, 1996 are 9,575,273 substantially exercisable as to half December 1, 1997, the balance after December 1, 2000.

Royal (RYG) Share Performance vs. Market Indices

Percentage Change from November 1994 to September 1996



Trading Data

	High (TSE)	Low (TSE)	Volume (000's)	Close (TSE)
1995				
Q1	11 1/4	10 3/4	1,785*	11
Q2	14 7/8	10 3/4	4,918*	14 5/8
Q3	19 1/2	14 1/8	9,121*	18 7/8
Q4	18 7/8	16 1/8	5,940*	17 5/8
1996				
Q1	19 7/8	17 1/8	2,478*	19 3/4
Q2	22 7/8	19 5/8	4,850*	21 5/8
Q3	22.15	19.40	6,820**	20.75
Q4	23.85	19.05	4,520**	23.25

* TSE &ME
** TSE,ME & NYSE

Corporate Information

Board of Directors

Vic De Zen
Royal Plastics Group Limited
Chairman, President and C.E.O.

Sergio De Zen
Royal Plastics Group Limited
Senior Executive Vice President
and C.O.O.

Gary Brown*
Royal Plastics Group Limited
Executive Vice President
and C.F.O.

Douglas Dunsmuir
Royal Plastics Group Limited
Executive Vice President
and General Counsel

Gwain Cornish
Royal Plastics Group Limited
Senior Vice President

Mario Cadorette
Plastibec Ltd.
Vice President
and General Manager

Gregory Sorbara*
The Sorbara Group, Partner

Ronald Slaght*
Lenczner, Slaght, Royce, Smith,
Griffen, Barristers
Partner

Ralph Brehn
Retired former President
of Hunter Douglas
Canada Ltd.

Irvine Hollis
Former President of Duracell Inc.
Presently Management Consultant,
I Hollis Management Consultants Inc.
Management Consultant

* Member of Audit Committee

Executive Officers

Vic De Zen
Chairman, President and C.E.O.

Sergio De Zen
Senior Executive Vice President
and C.O.O.

Gary Brown
Executive Vice President and C.F.O.

Douglas Dunsmuir
Executive Vice President
and General Counsel

Gwain Cornish
Senior Vice President

Shareholder Inquiries

If you have any questions concerning your account as a shareholder, such as name or address changes, stock certificates, or if you need tax information regarding your account, please contact our transfer agent:

The R-M Trust Company
393 University Ave., 5th Floor,
Toronto, Ontario M5G 2M7
Tel: 1-800-387-0825
or (416) 813-4600
Facsimile: (416) 813-4555

Chemical Mellon
Shareholder Services
Stock Transfer Administration
450 West 33rd Street
15th Floor
New York, New York 10001

Complimentary copies of the Annual Information Form and other reports filed with the Securities Commissions are available from:

Investor Relations
Royal Plastics Group Limited
1 Royal Gate Blvd.,
Woodbridge, Ontario L4L 8Z7
Telephone: (905) 264-0701
Facsimile: (905) 264-0702

Annual Meeting

The annual meeting of shareholders of Royal will be held February 12, 1997. The meeting notice and proxy materials were mailed to shareholders with this report. Royal urges all shareholders to vote their proxies so that they can participate in the decisions at the annual meeting.

Stock Exchange Listing

Subordinate voting shares are listed on the Toronto Stock Exchange, New York Stock Exchange and Montreal Exchange.
Symbol: RYG
Royal was added to the TSE 300 Index in June of 1995.

Financial Information

Security analysts and representatives of financial institutions are invited to contact:

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Royal Plastics Group